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DEFENSE FOR GEN.DUNCAN MCNABB FROM AMBASSADOR ROBERT D.
MC CALLUM JR
STATE FOR EAP AND PM

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Classified By: Ambassador Robert D. McCallum, Jr. for reasons 1.4(b)
and (d)

SUMMARY

¶1. (C/NF) Australia is the closest of our five treaty allies in the Asia-Pacific region and has deployed forces with the United States in every major military engagement since World War I, including most recently in Afghanistan and Iraq. Relations intensified dramatically in the wake of the 9/11 attacks in the United States, which prompted President Bush and then Prime Minister John Howard to invoke the mutual defense provisions of the 1951 ANZUS Treaty. In national elections in November 2007, the Australian Labor Party swept John Howard's Liberal/National coalition from power after more than 11 years in office. The new government, led by Kevin Rudd, moved quickly to reaffirm its commitment to the U.S. alliance as the first pillar of its foreign policy, ahead of its two other major policy goals: greater commitment to multilateral organizations, and deeper engagement with Asia. Just 13 months into his administration, Rudd's government continues to enjoy high approval ratings, driven by his early action to fulfill campaign promises, including rolling back the previous government's controversial industrial relations legislation, signing the Kyoto Protocol and withdrawing Australian combat troops from Iraq. Importantly, Rudd has kept combat elements in Afghanistan and has committed to remaining there for "the long haul" as the largest non-NATO troop contributor. It was one of only five countries beside the United States whose non-combat forces were invited to remain in Iraq beyond the expiration of the UNSC mandate on December 31, 2008. Rudd commissioned a comprehensive defense review that is due for public release by mid- 2009, but we expect the result will broadly endorse our bilateral defense cooperation.

¶2. (C/NF) The economy is in its 17th year of straight growth but will likely slide into recession later this year as a result of the global financial crisis. Compounding these financial pressures are concerns of unemployment and possible high costs associated with a greenhouse gas emissions trading scheme. Prime Minister Rudd made some initial foreign relations missteps, notably with India and Japan, but also in his dealings with The White House. His failure to consult with international stakeholders, including the United States, before announcing major foreign policy initiatives on regional architecture and nonproliferation generated additional criticism. He signaled a determination during the election campaign to be a more critical partner of the United States than his predecessor, tapping into widespread unease over the extent of U.S. influence on Australia's foreign policy, particularly over Iraq. An advocate of "middle

power" diplomacy, Rudd can be expected to continue to challenge the U.S. to do more on climate change, arms control and disarmament. Policy differences aside, Rudd is strongly committed to Australia's alliance with the United States, and his endorsement of ongoing collaboration with us across the broad range of shared issues highlights Australia's determination to be a reliable partner. End Summary Qdetermination to be a reliable partner. End Summary

U.S. ALLIANCE

¶3. (SBU) Support for the U.S. alliance, underpinned by the 1951 Australia-New Zealand-United States (ANZUS) Treaty, is foremost among the three pillars of Rudd's foreign policy (the others are cooperative engagement with multilateral organizations such as the UN, and deeper engagement with Asia). Rudd has made clear Australia's commitment to the alliance, and was quick to reach out to the United States in his election victory speech - the only foreign country he mentioned. One of Rudd's first visits abroad was to the United States in March, where he met the President, Secretary Rice, Secretary Gates, Secretary Paulson and many other senior level officials. In these meetings, and in a telephone call with President-elect Obama soon after the U.S. election, he reaffirmed the primacy of the relationship with the United States.

¶4. (C/NF) Rudd stressed during his election campaign that he would be more independent from the United States than his predecessor, John Howard, who was seen by the Australian public to have been in lockstep with President Bush over such unpopular issues as Iraq and the five-year confinement without trial in Guantanamo of Australian citizen David Hicks. While Rudd withdrew 550 soldiers comprising the Overwatch Battle Group from Iraq by June 2008, he did so only after consultation with the Iraqi, U.S. and UK governments. Since the expiration on December 31, 2008 of the UNSC mandate and the signing of a Memorandum of Understanding with the Iraqi Government, Australia has reduced troop levels to 120 embedded and administrative officers. Australia was selected by the Iraq government as one of only five countries other than the United States permitted to have a military role in Iraq after the UNSC mandate expired. One area where the Rudd government's policy diverges from the Bush Administration's is climate change, a topic that resonates strongly in Australia where many see a direct causal link with a series of recent, very severe droughts. PM Rudd ratified the Kyoto Protocol within hours of being sworn in, and his government in December as promised announced an emissions cap and trade system that, despite the global economic downturn, is due to be implemented in 2010. The plan has been praised by industry and criticized by environmental groups for only requiring a 5% cut from 2000 emissions levels by 2020.

¶5. (SBU) Rudd's extended political honeymoon with the public was given new life by his decisive response to the global financial crisis, particularly his pledge that the government would guarantee all bank deposits, regardless of size, for a three-year period, and the distribution of more than A\$10 billion to families with children, pensioners and other struggling groups. At the same time, the Opposition has started to right itself after the election defeat. While Rudd still holds a commanding lead as preferred prime minister, the recently installed Opposition Leader, Malcolm Turnbull, has begun to claw back some ground.

ECONOMY

¶6. (SBU) With the sharp downturn in the global economy following the intensification of the global financial crisis, Rudd's principal economic challenge is trying to prevent a recession in Australia. Australian banks remain sound, and Standard & Poor's have said Australia's AAA rating is not in jeopardy; Rudd's government extended deposit and wholesale funding guarantees in response to similar moves in other countries. But Australia's commodities-based export sector and its overall economy are heavily exposed to recessions in key trading partners like the U.S., Japan, and New Zealand,

and the dramatic slowdown in growth in its number one export market, China. The Reserve Bank of Australia, turning quickly from its early 2008 concern about rising inflation in a then-over-heating economy, aggressively slashed Australian interest rates from 7.25% to 4.25% (an all-time low) between September 2 and December 2. In October, Rudd and Treasurer Wayne Swan announced an A\$10.4 billion fiscal stimulus package aimed at families and pensioners; this package, equal to 1% of GDP, was distributed to Australians in early Oto 1% of GDP, was distributed to Australians in early December. Key economic indicators such as business and consumer confidence, unemployment, and job advertising are sharply worse in late 2008 over 2007. The Rudd Government is now considering another stimulus package, and are preparing the public for the idea that because of necessary stimulus spending and reduced revenues, Australia will soon have a budget deficit; initial predictions for FY2008-09 were for an A\$22 billion surplus. Australia has not had a recession since 1990-91; even if it manages to avoid one in 2009, growth will be sharply down.

¶ 17. (SBU) Rudd was aggressive in pushing for a G-20 response to the global financial crisis. He clearly sees Australia as having a role to play in the international effort. There have been no serious calls in Australia for raising protectionist barriers due to the global financial crisis; the GOA even rejected calls to delay a scheduled cut in automobile tariffs despite the problems of its domestic auto industry.

¶ 18. (SBU) The United States and Australia enjoy very close economic relations. The centerpiece is the U.S.-Australia Free Trade Agreement, which went into effect in January 2005. In 2008 the U.S. enjoyed a trade surplus with Australia of over \$10 billion. We are Australia's third largest trading partner (after China and Japan), and by far the largest foreign investor in Australia. Australia is our 14th-largest trading partner, and we are Australia's top overseas investment destination. We concluded an Open Skies civil aviation agreement with Australia, which was signed during Prime Minister Rudd's visit to Washington last March/April.

MISSTEPS ON FOREIGN POLICY

¶ 19. (C/NF) While Rudd served as a diplomat early in his career, and is fluent in Mandarin, his government has made some misjudgments in the foreign affairs area. Foreign Minister Smith angered India -- and raised eyebrows in Japan and the United States -- with his public announcement, standing next to his Chinese counterpart, that Australia would no longer support a Quadrilateral Strategic Dialogue with India -- a short-lived offshoot of the U.S.-Japan-Australia Trilateral Strategic Dialogue - in deference to China's sensitivities. Rudd irritated Japan with his government's threats to take legal action against Japanese whaling, coupled with the release of official GOA photographs of Japan's whaling activities, and his failure to include Japan, a major security and trade partner, on his first major overseas trip. He leaked to the press details of a telephone conversation with President Bush, which resulted in a story which mischaracterized the President's comments, and a confidential Bush request to consider resettling a small number of Uighurs from the Guantanamo Bay detention facility also ended up in the press. Moreover, Rudd encountered international criticism for the hasty manner in which he rolled out two major foreign policy initiatives in June 2008. His vision for a European Union-style Asia Pacific Community by 2020, unveiled on June 4, and his June 9 announcement that Australia would establish an International Commission on Nuclear Nonproliferation and Disarmament to shape the outcome of the 2010 Nuclear Nonproliferation Treaty Review Conference, were both launched without internal vetting or consultation with the stakeholder countries whose support would be needed for the success of these undertakings. Senior officials have ascribed the lapse to Rudd's rush to fulfill foreign policy promises made during the election campaign and the "talismanic" importance of

nuclear disarmament to the Australian Labor Party, but Rudd's inclination to rely on his small inner circle of advisors rather than on his bureaucracy, and his evident need to dominate the headlines may also explain his actions.

COMMITMENT TO MULTILATERAL ORGANIZATIONS

¶110. (C) To further the GOA's engagement with multilateral organizations, the second pillar of his foreign policy, PM Rudd announced Australia would seek a seat on the UN Security Council for the 2013-2014 term, and he has traveled to Brussels to reinvigorate Australia's ties with the European Union. While in opposition, the ALP supported international military action to overthrow the Taliban in Afghanistan in 2002 but opposed the invasion of Iraq, partly because the latter action lacked a UN mandate. Rudd's vision for an Ollatter action lacked a UN mandate. Rudd's vision for an EU-like Asia Pacific Community by 2020 also builds on his commitment to address international challenges through multilateral fora.

COUNTERTERRORISM

¶111. (SBU) Australia is a full partner in our counterterrorism efforts and aggressively leads efforts to combat domestic and international terrorism, particularly in Southeast Asia, where addressing the threat of Jemaah Islamiyah remains our highest common priority. Australia provides significant assistance to Southeast Asian countries to improve their CT capabilities, promotes regional capacity building through the APEC Counterterrorism Task Force (CTTF), and advocates coordination and expansion of donor CT assistance in Counter Terrorism Action Group (CTAG) meetings.

On September 5, 2008, Foreign Minister Smith announced the appointment of former Ambassador to Thailand William (Bill) Paterson as Australia's Ambassador for Counter-Terrorism.

DEFENSE COOPERATION

¶112. (SBU) The Australian Defence Force (ADF) numbers approximately 52,000 active duty personnel, with planned increases to 57,000 within the next decade, including an increase in the Australian Army from 26,000 to 30,000. Recruitment and retention, especially for technical personnel with skills also sought by the mining industry, has long been challenge for the ADF. However, with changes in recruiting methods and incentives, coupled with rising unemployment as result of the global financial crisis, recent data show increases in recruiting and declines in attrition. The GOA has stated its commitment to three percent annual real growth in defense spending through 2018 to ensure the ADF is able to meet capability and interoperability goals.

¶113. (SBU) The Royal Australian Navy's (RAN) front-line fleet currently includes 12 frigates, including four of the Adelaide class and eight Australian-built ANZAC class. In August 2004, Australia selected the Aegis Combat Control System for its three air warfare destroyers (AWD), which will start coming into service in 2014. A decision on a fourth AWD is expected in early 2009. The F/A-18 fighter, built in Australia under license from the U.S. manufacturer, is the principal combat aircraft of the Royal Australian Air Force, backed by the U.S.-built F-111 strike aircraft. In October 2002, Australia became a Level III partner in the U.S.-led Joint Strike Fighter (JSF) program. Additionally, the Australian Government signed the JSF Production, Sustainment and Follow-on Development MOU in 2006. Australia is projected to buy up to 100 JSF aircraft with deliveries starting in 2013 and running through 2020, with its decision on the JSF expected in June 2009. The F-111 strike aircraft are scheduled to exit service by 2010 and will be replaced by 24 Boeing F/A-18F Super Hornet fighters, with deliveries commencing in 2010, to provide interim strike capability until the arrival of the JSFs. The Royal Australian Air Force (RAAF) took delivery of four Lockheed C-17 strategic airlift aircraft in 2007-2008. In addition, Boeing has agreed to provide the Commonwealth of Australia's RAAF with the "Wedgetail" Airborne Early Warning and Control (AEW&C)

system based on the Next-Generation 737-700 aircraft as the airborne platform, although the project has been plagued by delays and cost overruns. Recent U.S. sales to the Australian Army include the M1A1 AIM tank, as well as Hellfire and JAVELIN munitions. Future opportunities include CH-47 helicopter replacements, navy helicopter replacements, light and medium cargo aircraft replacements and artillery systems.

DEFENCE WHITE PAPER

¶14. (C/NF) The Rudd government has ordered a comprehensive review of Australia's defense policy, including review of some major defense acquisitions from the United States, that has slowed or postponed bilateral cooperation in some areas, such as missile defense. While the Defence White Paper will not be completed until at least April 2009, we have been assured privately not to expect surprises in the overall strategic assessment, and we expect defense cooperation to proceed with little interruption. We can expect Australia's Qproceed with little interruption. We can expect Australia's continued contributions to military operations targeting the Taliban and al-Qaeda in Afghanistan, and a continued non-combat role in Iraq. The small size of its military and demands of deployments elsewhere mean Australia will be hard pressed to increase substantially the level of its deployments for some time to come. We believe it could deploy up to 1000 additional troops to Afghanistan, although public support for Australia's involvement in Afghanistan has gradually begun to erode. Despite this, we are confident Australia will remain one of our closest allies and most reliable security partners for the foreseeable future, and we expect the GOA to remain the largest consumer of U.S. defense hardware and technology in the Asia-Pacific area.

DEFENSE TRADE COOPERATION TREATY

¶15. (SBU) The U.S.-Australian Defense Trade Cooperation Treaty is awaiting approval by the U.S. Senate. In a letter to Secretary Rice in September, Senators indicated that questions remain about the agreement and accompanying Implementing Arrangements. The Australian Defence Materiel Organisation estimates a 50 percent reduction in export licenses required following treaty implementation.

ENHANCED DEFENSE COOPERATION

¶16. (S/REL AUS) As discussed between President Bush and former PM Howard on the margins of APEC in Sydney in September 2007, and as reconfirmed during the February 2008 AUSMIN meeting, our two governments have agreed to strengthen combined capabilities in three areas: enhancing the Joint Combined Training Capability; prepositioning equipment for Humanitarian Assistance and disaster relief (HA/DR) operations in the region; and strengthening Intelligence, Surveillance and Reconnaissance (ISR) access and cooperation. Subsequent discussions have made significant progress in joint cooperation on the JCTC and increasing ISR initiatives. The idea to preposition HA/DR equipment concept was shelved in favor of improving HA/DR combined C2 capability and access to HA/DR asset information.

Trilateral Strategic Dialogue

¶17. (C/NF) The Rudd government has reaffirmed its strong support for the U.S.-Australia-Japan Trilateral Strategic Dialogue (TSD), which has grown from a deputy secretary/vice ministerial level exchange of strategic assessments in 2002 to regular ministerial and senior officials dialogue with separate tracks addressing defense cooperation, counterterrorism, intelligence, Pacific Islands and humanitarian assistance/disaster relief (HA/DR). Australia has engaged actively in the defense cooperation track - the Security and Defense Cooperation Forum (SDCF) - since its initiation in 2007, participating in P-3 surveillance aircraft exercises, HA/DR strategic airlift seminars, and exchanges on maritime security and peacekeeping. Australia has used the SDCF to engage Japan more deeply on bilateral

defense cooperation, but shares our frustration at Japan's political fragility and bureaucratic impediments that made operational cooperation difficult. SDCF cooperation is also hindered by issues related to Japan's classified information-sharing. While the Australian government's posture on further engagement with the United States on a ballistic missile defense program will be spelled out in its forthcoming Defence White Paper, it participated in a TSD trilateral Ballistic Missile Defense Forum in September 2008 in Honolulu. Japan has expressed some unhappiness with the GOA's reluctance to move forward more quickly on BMD. The next SDCF is scheduled for February 5, 2009.

ARMS CONTROL, DISARMAMENT AND NONPROLIFERATION

¶18. (U) Australia historically has had a strong record on arms control and disarmament, and has signed and ratified all the major regimes, including the Nuclear Nonproliferation Treaty (NPT); the Comprehensive Test Ban Treaty (CTBT); the Chemical Weapons Convention (CWC); the Biological Weapons Convention (BWC); the Ottawa Convention on landmines; and the Convention on Certain Conventional Weapons (CCW). It was a founder of the IAEA, and is member of its Board of Governors, and has been a close partner with the U.S. on export controls, particularly MANPADS. Australia is a member of the Zangger Committee, the Nuclear Suppliers Group (NSG), the Australia Group, the Proliferation Security Initiative (PSI), QAustralia Group, the Proliferation Security Initiative (PSI), and the Missile Technology Control Regime (MTCR). Australia was the 2008-2009 MTCR Chair and hosted the 2008 MTCR Plenary in Canberra in November.

¶19. (SBU) In June 2008, in fulfillment of another campaign promise, PM Rudd announced the establishment of an International Commission on Nuclear Nonproliferation and Disarmament, intended to address the deterioration of the NPT regime, in light of the number of non-NPT states that have developed nuclear weapons, and to shape a successful outcome at the 2010 NPT Review Conference. The Commission, co-chaired by Gareth Evans, a former Australian foreign minister, and Yoriko Kawaguchi, former foreign minister of Japan, identified three areas of study for the Commission, including:

-- strengthening compliance with the NPT by requiring all NPT signatories to adopt IAEA-designed monitoring provisions (i.e., Additional Protocols);

-- developing an international system to manage the nuclear fuel cycle; and

-- adopting a process to bring the Comprehensive Nuclear Test Ban Treaty (CTBT) into force. (Note: On May 12, Foreign Minister Smith publicly called for the nine countries that have not ratified the CTBT, including the United States, to do so to bring the Treaty into force.)

Former U.S. Defense Secretary William Perry represents the United States on the Commission, and former Secretary of State and National Security Adviser Henry Kissinger serves on the Advisory Board.

IRAQ

¶20. (C/NF) Fulfilling a campaign pledge, Rudd withdrew approximately 515 combat troops comprising the Overwatch Battle Group, plus the 100-strong Australian Army Training Team, from Iraq in June 2008, leaving in place approximately 1,000 defense personnel, including a 100-man security detachment for its diplomatic mission in Baghdad, and naval and air patrol assets based in neighboring countries that support operations in both Iraq and Afghanistan. Despite the withdrawal of combat forces, Rudd agreed to allow Australian forces embedded or seconded to units of other countries including the U.S. to deploy to Iraq in combat and combat support roles with those units. The Iraqi government identified Australia as one of only five countries other than the United States whose personnel have been permitted to

remain in Iraq after 2008, but under the terms of the negotiated MOU, only Australian forces embedded with U.S. forces were provided adequate legal protection, resulting in a further reduction in the number of personnel in-country to 120 troops. (Of those 120, the approximately 80-strong Embassy security detachment is considered administrative and technical staff of the Embassy, and is covered separately under the Vienna Convention on Diplomatic Relations.)

Australian aircraft operating in Iraq will follow normal air space procedures and Australia's frigate guarding Iraqi oil platforms has been redeployed to international waters in the Gulf. The Australians plan to remain engaged in Iraq in reconstruction and other non-combat roles, and the GOA is considering proposals for additional training and technical assistance. We have asked Australia to contribute specialists to serve in U.S. PRTs.

AFGHANISTAN

¶21. (C/NF) Unlike Iraq, there has been bipartisan political support in Australia up to now for its troop commitment in Afghanistan, and the Rudd government has reaffirmed that it plans to remain in Afghanistan for the "long haul." Support for Australia's combat role in Afghanistan is linked in part to the presence of al-Qaeda and the Taliban, who trained bombers that killed 202 civilians, including 88 Australians, in Bali in 2002, as well as to the impact of the Afghan drug trade on Australia, and the fact that the October 2001 incursion was mandated by the United Nations. The Australian government deployed an Operational Mentoring and Liaison Team (OMLT) to Afghanistan in November to help train the Afghan National Army and provides additional civilian development assistance, but is not currently contemplating increasing its combat forces. Eight Australian soldiers have been killed in Afghanistan since 2002, including six within the past 18 months. Recent polls show Australian public opinion has begun to turn, with a slight majority now opposing Australia's continued military role in Afghanistan.

CHINA

¶22. (C/NF) An important dynamic in the U.S. relationship with the Rudd Labor government is China. China is now Australia's largest trading partner, and the Chinese export market is a critical component of Australia's growth now and well into the future. PM Rudd's background as a Mandarin-speaking former diplomat who served in Beijing has led some to believe that he might be overly sensitive towards China, but he has demonstrated a balanced view. Rudd shares our position that China needs to be encouraged to be a responsible stakeholder in the international system, but cautions that the international community needs to be prepared for the possibility that China's rise might take a "malign" turn. Moreover, the GOA shares our concerns about China's military modernization, lack of transparency about its military budget, and abuse of human rights. Rudd spoke out strongly to protest China's crackdown in Tibet during his first official visit to China. A GOA spokesperson recently denied a press story alleging that Chinese pressure played a part in Australia's decision not to accept for resettlement from Guantanamo a group of Uighurs - Muslims from northwest China whom Beijing regards as terrorists who should be repatriated to China.

INDIA

¶23. (C/NF) The Rudd government has moved to intensify Australia's relationship with India, and has signaled its intent to engage bilaterally on shared strategic interests, including maintaining stability in the Indian Ocean area and matching Australian resources to India's energy supply needs.

Australia played a positive role in supporting an exception for the U.S.-India civil nuclear agreement in the Nuclear Suppliers Group and the IAEA, but has indicated that it will not export uranium to India because it has not signed the Nuclear Nonproliferation Treaty.

INDONESIA

¶24. (C/NF) Australia's relationship with Indonesia has improved markedly in the last few years and it appears to very satisfied with President Yudhoyono's performance to date. The GOA consistently portrays the relationship as one of Australia's most important, encompassing political, security, commercial, cultural and people-to-people links. In February 2008, the Lombok Treaty between Australia and Indonesia came into full force and provides the framework for bilateral cooperation on counterterrorism efforts in law enforcement, capacity building, border control, maritime and transport security, legal assistance, financial monitoring, defense and management of chemical, biological, radiological and nuclear terrorist threats.

MCCALLUM